

Message Text

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UNCLAS SECTION 1 OF 2 ISLAMABAD 6960

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TAGS: EGEN, PK

SUBJ: GOP ASSESSMENT OF ITS ECONOMIC PROGRESS

REF: ISLAMABAD 5887

BEGIN SUMMARY: THE FY 1976 EDITION OF PAKISTAN'S ECONOMIC SURVEY, RELEASED BY THE GOP WITH THE BUDGET, PRESENTS A FAVORABLE PICTURE OF PAKISTAN'S ECONOMIC PERFORMANCE FOR THE YEAR ENDING JUNE 1976 BUT NONETHELESS FALLS BELOW THE VERY OPTIMISTIC EXPECTATIONS EARLIER ENTERTAINED FOR THE YEAR. THE GOVERNMENT LISTS AS ITS GREATEST ACCOMPLISHMENTS THE MARKED DROP IN INFLATION (FROM ABOUT 24 PERCENT TO UNDER 10 PERCENT), THE SHARP RISE IN WHEAT PRODUCTION (FROM 7.5 MILLION TONS TO 8.1 MILLION OR MORE), AND THE CONTINUING INCREASE IN INVESTMENT. THE GOVERNMENT'S GREATEST CONCERN, NOT SURPRISINGLY, IS OVER THE BALANCE OF PAYMENTS AND PAKISTAN'S GROWING DEBT BURDEN. THIS YEAR'S SURVEY INCLUDES FAIRLY DETAILED CHAPTERS ON THE SOCIAL SECTORS, WHICH WHILE ADDING LITTLE NEW INFORMATION, UNCLASSIFIED

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DEMONSTRATE THE GROWING AWARENESS THAT THESE LESS EASILY

MEASURED FIELDS HAVE AN IMPORTANT BEARING ON PAKISTAN'S ECONOMY AND DEVELOPMENT. ALL IN ALL, WE THINK IT IS A FAIR SUMMARY OF PAKISTAN'S PRESENT ECONOMIC POSITION, ALTHOUGH IT LEAVES OUT CERTAIN PROBLEMS, PARTICULARLY THE NEED FOR GREATER RESOURCE MOBILIZATION. END SUMMARY.

1. THE GOP SUMMARIZED ITS ECONOMIC SURVEY OF THE FISCAL YEAR WHICH ENDED JUNE 30, 1976 BY SAYING THAT "THE ECONOMY MOVED IN THE DIRECTION OF EXPECTATIONS BUT NOT TO THE DEGREE ENVISAGED." THE 5 PERCENT REAL GROWTH RATE RECORDED FOR THE YEAR IN GOP STATISTICS, WHILE WELL BELOW THE 9 PERCENT GROWTH THE GOP HAD HOPED FOR, WAS CLEARLY A RESPECTABLE ACHIEVEMENT IN THE EYES OF THE GOP. AFTER ALLOWING FOR POPULATION GROWTH, THIS LEFT ROOM FOR AN INCREASE IN PER CAPITA INCOME OF SOME 2 PERCENT, IN MARKED CONTRAST TO THE STAGNATION OR DECLINE IN PER CAPITA INCOME LAST YEAR. IN GENERAL, THE GOP LOOKS ON FY 1976 AS A YEAR OF CONSOLIDATION FOR THE ECONOMY. THE DROP IN INFLATION, THE INCREASE IN WHEAT PRODUCTION, AND THE GRADUAL IMPROVEMENT IN THE ECONOMIC CLIMATE IN THE INDUSTRIALIZED COUNTRIES ALL, IN THE EYES OF THE GOP, PROVIDED THE BASIS ON WHICH PAKISTAN COULD BUILD MORE RAPID ECONOMIC EXPANSION IN THE YEARS TO COME. THIS OVERALL ASSESSMENT ACCORDS REASONABLY WELL WITH OUR OWN, ALTHOUGH BOTH WE AND THE IBRD HAD EARLIER PREDICTED A GOP GROWTH RATE CLOSER TO 4 PERCENT.

2. AGRICULTURE: OVERALL AGRICULTURAL PRODUCTION WAS UP 4 PERCENT COMPARED WITH FY 1975. THE MOST DRAMATIC INCREASE WAS IN WHEAT PRODUCTION, WHICH ROSE FROM 7.5 MILLION TONS TO 8.1 MILLION TONS OR MORE. (ESTIMATES MENTIONED BY NON-GOP OBSERVERS RANGE AS HIGH AS 9 MILLION TONS.) TAKEN TOGETHER WITH FAIRLY GOOD SUGAR AND RICE CROPS, THIS MORE THAN OFFSETS THE DISASTROUS 19 PERCENT DROP IN COTTON PRODUCTION. WITH SOME TWO THIRDS OF THE POPULATION MAKING THEIR LIVELIHOOD FROM AGRICULTURE, AND WITH WHEAT SELF-SUFFICIENCY A STRONG GOVERNMENT PRIORITY, THIS PAST YEAR'S SOLID PERFORMANCE IS ONE THE GOVERNMENT TAKES PARTICULAR AND JUSTIFIABLE PRIDE IN, AND THIS IS REFLECTED IN THE SURVEY. THE UNCLASSIFIED

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MORE SERIOUS QUESTION OF WHETHER THIS YEAR'S RECORD PERFORMANCE ON WHEAT CAN BE CONTAINED AND EXTENDED TO THE OTHER MAJOR CROPS IS OF COURSE BEYOND THE SCOPE OF THE SURVEY, BUT IN OUR VIEW WILL BE CRUCIAL FOR PAKISTAN'S LONGER-TERM PROGRESS.

3. INDUSTRY: INDUSTRIAL PRODUCTION INCREASED BY 1.5 PERCENT IN REAL TERMS, ACCORDING TO THE SURVEY.

THIS CONTRASTS WITH A SLIGHT DECLINE IN INDUSTRIAL PRODUCTION IN FY 1975, BUT IS FAR BELOW THE HOPED FOR 14 PERCENT INDUSTRIAL GROWTH RATE DESCRIBED IN THE GOVERNMENT'S ANNUAL PLAN. THE MAIN OBSTACLE IN THE WAY OF RAPID EXPANSION OF INDUSTRIAL PRODUCTION IN FY 76 WAS THE FACT THAT FEW INDUSTRIAL PLANTS CAME ON STREAM DURING THE YEAR. AS A RESULT, MOST OF THE INCREASE IN INDUSTRIAL PRODUCTION HAD TO COME FROM BETTER USE OF EXISTING CAPACITY, WHICH IN TURN IMPLIES IMPROVEMENTS IN ORGANIZATION AND MANAGEMENT. THE SAME GENERAL SITUATION WILL CONFRONT THE GOP FOR AT LEAST ANOTHER ONE TO TWO YEARS, WHILE THE MAJOR INVESTMENT PROGRAMS IN THE PUBLIC SECTOR INDUSTRIES ARE BEING COMPLETED; WE THEREFORE EXPECT INDUSTRIAL OUTPUT TO FALL SHORT OF GOVERNMENT PROJECTIONS DURING THIS PERIOD AS WELL.

4. PAKISTAN'S TEXTILE INDUSTRY, THE MAINSTAY OF ITS INDUSTRIAL SECTOR, CONTINUED TO SUFFER FROM THE PROLONGED INDUSTRIAL RECESSION IN THE WEST. AS INTERNATIONAL DEMAND FOR PAKISTAN'S TEXTILES BEGAN TO PICK UP IN THE SECOND HALF OF THE FISCAL YEAR, THE EFFECTS OF THE POOR COTTON CROP TOOK THEIR TOLL. AT THE END OF THE YEAR, THERE WAS STILL CONSIDERABLE CONCERN OVER THE FUTURE OF THE TEXTILE INDUSTRY IN VIEW OF THE SHORT SUPPLIES AND HIGH PRICES OF COTTON AVAILABLE IN PAKISTAN.

5. WE CONSIDER IT IS NOTEWORTHY THAT THE TWO MAJOR GOODS PRODUCING SECTORS OF THE ECONOMY, AGRICULTURE AND MANUFACTURING, HAVE GROWN MORE SLOWLY THAN OVERALL GDP GROWTH FOR THE PAST TWO YEARS. IN CONTRAST, THE SECTORS WHICH HAVE BEEN LEADING IN ECONOMIC GROWTH THE PAST FOUR YEARS ARE CONSTRUCTION, ELECTRICITY AND GAS DISTRIBUTION, AND TRANSPORTATION.

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THE GOP DOES NOT COMMENT ON THIS PHENOMENON IN THE SURVEY. WE REGARD IT AS A SOMEWHAT WORRISOME TREND, HOWEVER, PARTICULARLY IN VIEW OF PAKISTAN'S HIGH POPULTION GROWTH RATE WHICH WILL CONTINUE TO RESULT IN A RAPID INCREASE IN DEMAND FOR BASIC AGRICULTURAL AND MANUFACTURED GOODS.

2. MONEY AND PRICES:

ACCORDING TO THE SURVEY, THE GOP TOOK PARTICULAR SATISFACTION FROM THE SHARP DROP IN INFLATION RECORDED IN FY 1976. THE GOP ESTIMATES THAT THE CONSUMER AND WHOLESALE PRICE INDICES IN JUNE 1976 WERE APPROXIMATELY 6 PERCENT ABOVE THEIR LEVEL OF A YEAR EARLIER, AND THAT THE INDEX OF "SENSITIVE PRICES" (18 COMMODITIES OF PARTICULAR IMPORTANCE TO HOUSEHOLD CONSUMPTION THROUGHOUT PAKISTAN), WAS ACTUALLY BELOW ITS JUNE 1975 LEVEL. WHILE ONE MAY QUIBBLE ABOUT THE PRECISE STATISTICS INVOLVED -- OUR UNDERSTANDING IS THAT THE INDICES HAVE NOT BEEN REVISED IN A LONG TIME, AND MAY THEREFORE BE SOMEWHAT OUTDATED -- IT IS CLEAR THAT THE DECREASE IN THE INFLATION RATE HAS BEEN SUBSTANTIAL AND SIGNIFICANT. THE DECREASE IN WORLDWIDE INFLATION OBVIOUSLY FACILITATED UNCLASSIFIED

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THIS ACCOMPLISHMENT, BUT GOVERNMENT POLICY, ESPECIALLY GOVERNMENT RESTRAINT ON WAGES, ALSO PLAYED A PART.

7. GOVERNMENT MONETARY POLICY, HOWEVER, HAS BEEN LESS RESTRICTIVE THAN THEIR ANTI-INFLATION DRIVE WOULD SUGGEST. THE SURVEY STATES THAT MONEY SUPPLY GREW NEARLY 17 PERCENT DURING THE FIRST 9 MONTHS OF THE YEAR (OUR ESTIMATE FOR THE FULL YEAR IS ABOUT 20 PERCENT). THIS COMPARES WITH A TARGET OF 14 PERCENT FOR THE FULL YEAR. THE GOVERNMENT

SEEMS TO HAVE HAD SOME DIFFICULTY STAYING WITHIN THE CREDIT CEILINGS IT HAD SET FOR ITSELF. WE EXPECT THAT THE GOVERNMENT WILL CONTINUE TO HAVE DIFFICULTY RESTRAINING MONETARY EXPANSION IN VIEW OF THE LARGE LOCAL CREDIT REQUIREMENTS OF THE PUBLIC SECTOR INVESTMENT PROGRAM NOW UNDER WAY.

8. INVESTMENT: GOP FIGURES SHOW ANOTHER SHARP INCREASE IN OVERALL INVESTMENT DURING FY 1976 (PRELIMINARY ESTIMATES SOME 20 PERCENT ABOVE FY 76 IN REAL TERMS). MOST OF THIS INVESTMENT, AND IN PARTICULAR MOST OF THE INCREASE, CAME FROM THE PUBLIC SECTOR INDUSTRIAL INVESTMENT PROGRAM. THE GOP FERTILIZER AND STEEL PLANTS SEEM TO BE MOVING AHEAD ON SCHEDULE, AND THE PUBLIC SECTOR CORPORATIONS HAVE AMBITIOUS INVESTMENT PROGRAMS IN OTHER AREAS AS WELL. BY CONTRAST, DESPITE REPEATED ASSERTIONS BY THE GOP THAT THE PAKISTANI ECONOMY NEEDS A VIGOROUS PRIVATE SECTOR IN ORDER TO DEVELOP SUCCESSFULLY, PRIVATE INVESTMENT APPEARS TO HAVE STAGNATED. NEWK PROJECTS SANCTIONED BY THE TWO PRINCIPAL DEVELOPMENT BANKS IN PAKISTAN, PICIC AND IBDP, DROPPED SHARPLY IN FY 1976 COMPARED TO FY 1975, ALTHOUGH DISBURSEMENTS WERE UP. THE SURVEY'S COMMENTS ON BANKING MENTION A LOWER-THAN - EXPECTED LEVEL OF DEMAND FOR PRIVATE SECTOR BANK CREDIT, AND OUR DISUCSSIONS WITH BANKERS BEAR THIS OUT. THIS IS OBVIOUSLY CONNECTED WITH THE PROBLEMS NOW FACING THE TEXTILE INDUSTRY, BUT IT ALSO SUGGESTS A CONTINUING RELUCTANCE ON THE PART OF PAKISTANI INVESTORS TO PLACE THEIR FUNDS AT RISK. IN RECENT YEARS, MOREOVER, THE SHARE OF PRIVATE INVESTMENT GOING INTO INDUSTRY HAS BEEN STEADILY DROPPING AND WE SEE NO CHANGE IN THIS TREND.

9. BALANCE OF PAYMENTS: ONCE AGAIN, THE GOP RECOGNIZES
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THAT THE BALANCE OF PAYMENTS IS PAKISTAN'S MOST VULNERABLE POINT. DESPITE AN ENCOURAGING 6-8 PERCENT GROWTH IN EXPORTS AND A SUCCESSFUL EFFORT TO HOLD IMPORTS TO ROUGHLY THEIR FY 75 LEVEL, PAKISTAN ENDED THE YEAR WITH A TRADE DEFICIT EXCEEDING \$1 BILLION. EVEN THE GOVERNMENT'S OPTIMISTIC FORECASTS SUGGEST THAT A SIMILAR TRADE DEFICIT IS IN STORE FOR THE NEXT SEVERAL YEARS. WHILE THE FOREIGN AID FIGURES IN THE SURVEY DEMONSTRATE PAKISTAN'S SUCCESS IN RAISING ENOUGH AID MONEY TO BRIDGE THE GAP, THEY ALSO SHOW A TREND TOWARDS DECREASING COMMITMENTS, PARTICULARLY FROM THE OPEC COUNTRIES, AND TOWARD INCREASING RELIANCE ON PROJECT AID. BOTH TRENDS MUST BE WORRISOME TO PAKISTAN POLICY MAKERS, SINCE THEY SUGGEST THAT IT WILL BE MORE DIFFICULT IN THE FUTURE TO MAKE ENDS MEET.

10. THE SURVEY MENTIONS PAKISTAN'S DEBT SERVICE BURDEN,

BUT UNFORTUNATELY, IN OUR VIEW, IT PULLS ITS PUNCHES AND EXCLUDES FROM ITS DEBT SERVICE STATISTICS ALL SHORT-TERM (1 YEAR OR LESS) OBLIGATIONS. AS A RESULT, RATIO OF DEBT SERVICING TO QFOREIGN EXCHANGE EARNINGS APPEARS AS 16.8 PERCENT, IN CONTRAST TO THE 30 PERCENT FIGURES WE HAVE BEEN REPORTING.

11. SOCIAL SECTORS: THIS YEAR'S SUMMARY INCLUDED FOUR NEW CHAPTERS DEALING WITH EDUCATION, HEALTH, HOUSING AND POPULATION PLANNING, AND AN EXPANDED CHAPTER ON SOCIO-ECONOMIC REFORMS. THESE CHAPTERS ADD LITTLE NEW INFORMATION BEYOND WHAT THE GOVERNMENT HAS SAID ELSEWHERE ON THESE SUBJECTS. THE EDUCATION CHAPTER CLAIMS TO STRESS PROGRAMS TO IMPROVE PAKISTAN LITERACY RATE (GIVEN AS 21 PERCENT) AND PRESENTS A MASS OF STATISTICS DEMONSTRATING THE INCREASE IN FEMALE SCHOOL ENROLLMENT, BUT MOST OF THE TEXT DEALS WITH HIGHER EDUCATION. THE HEALTH CHAPTER STRESSES DEVELOPMENT OF A PARA-MEDICAL PERSONNEL NETWORK. THE CHAPTER ON POPULATION PLANNING REEMPHASIZES THE URGENCY WITH WHICH THE GOP RECORDS ITS POPULATION PROBLEM. IT DEVOTES APPROXIMATELY EQUAL ATTENTION TO TARGETS FOR CONTRACEPTIVE USE AND TO "BEYOND FAMILY PLANNING" MEASURES DESIGNED TO MAKE PEOPLE DESIRE SMALLER FAMILIES. THE CHAPTER ON HOUSING PROVIDES STATISTICS FAMILIAR FROM OTHER GOP DOCUMENTS ON PAST AND PLANNED HOUSING DEVELOPMENT. THEIR UNCLASSIFIED

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INCLUSION IN WHAT HAD HITHERTO BEEN A PURELY "ECONOMIC" DOCUMENT IS ONE MORE INDICATION THAT THE GOVERNMENT OF PAKISTAN LOOKS ON ITS DEVELOPMENT EFFORT AS ONE WHICH MUST COMBINE BOTH SOCIAL AND ECONOMIC FEATURES.

12. RESOURCE MOBILIZATION: ALTHOUGH OBSERVERS OF THE PAKISTA SCENE HAVE AGREED FOR SOME YEARS THAT INADEQUATE DOMESTIC RESOURCE MOBILIZATION IS ONE OF PAKISTAN'S KEY ECONOMIC WEAKNESSES, THE SUBJECT RECEIVES LITTLE ATTENTION IN THE SURVEY. ONE CHAPTER IS DEVOTED TO THE CAPITAL MARKET, BUT IT DEVOTES VERY LITTLE SPACE TO A STATEMENT OF THE IMPORTANCE OF THE PROBLEM OR TO A DISCUSSION OF THE OVERALL SAVINGS LEVEL IN THE COUNTRY. THERE IS NO DISCUSSION AT ALL OF THE ROLE OF GOP FISCAL POLICY IN THIS REGARD. OTHER GOP STATEMENT AND PUBLICATIONS, NOTABLY THE DRAFT FIVE-YEAR PLAN, HAVE MADE IT CLEAR THAT THE GOVERNMENT IS AWARE OF THE PROBLEM. IT SEEMS TO HAVE SLIPPED BETWEEN THE CRACKS IN PREPARING THE SURVEY.

13. COPIES OF THE SURVEY (A CERP DOCUMENT) HAVE BEEN POUCHED TO WASHINGTON.
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